Testimony Before House Agriculture Committee

American Soybean Association -- Virginia Soybean Association
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Washington, DC, 20510

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Review of Agriculture's Role in a Renewable Fuels Standard (RFS)

INTRODUCTION:

Chairman Goodlatte, Ranking Member Peterson, thank you for giving America's soybean farmers the opportunity to testify on agriculture's role in growing our way toward energy security though the use of renewable fuels like biodiesel.

My name is Doug Faulkner. I am a member of the Virginia Soybean Association and Virginia Soybean Board. I currently own and operate the Virginia Biodiesel Refinery plant located approximately 30 miles east of Richmond, Virginia, in the town of West Point. Virginia Biodiesel Refinery has the capacity to produce 2 million gallons of biodiesel and has plans to expand to 3 million gallons later this summer. The plant operates 24-hours a day, six days a week.

Earlier this summer, I hosted President Bush where he delivered a speech. In his speech, the he said high petroleum prices highlight how consumers and lawmakers need to look towards domestic energy sources, and he pressed Congress to pass a comprehensive energy bill.

Mr. Chairman, the issue raised today, is a critical issue with soaring petroleum process -- but there is something that can help alleviate the price pressure on consumers -- a national renewable fuels standard (RFS). American farmers stand ready to be the foot soldiers in this battle of high gasoline and diesel prices, and my fellow soybean farmers, and biodiesel industry companions are ready!

BIODIESEL:

Mr. Chairman, the soybeans grown right here at home by the American farmer can be used to make fuel called biodiesel. Biodiesel is a diesel fuel substitute made from agricultural products like soybean oil.

Biodiesel is produced through a process, which separates the glycerin in the oil, and the resulting compound acts similarly to petroleum diesel fuel in a diesel engine. It can be used in conventional diesel engines in pure form, or blended with any concentration with petroleum diesel. The most common blends are B20, a mixture of 20% biodiesel with 80% petroleum diesel, and B2; a blend of 2% biodiesel as a renewable premium fuel additive.

Biodiesel is one of the best-tested alternative fuels in the country, with more than 50 million successful road miles and countless off-road and marine hours in virtually every diesel engine type, and diesel application. It has similar torque, horsepower, and fuel economy. But it burns significantly cleaner and has premium fuel attributes. Biodiesel reduces virtually every regulated emission except for Nitrogen Oxides.

U.S. soybean farmers have invested more than $40 million through their checkoff programs into biodiesel. Biodiesel sales were approximately 500,000 gallons nationwide in 1999. The industry has seen aggressive growth to approximately 25 million gallons in 2003, and for 2005, we expect to break yet another record. According to the U.S. Department of Energy, biodiesel has become the fastest growing alternative fuel in the country. It offers enhanced lubricity and cetane, plus similar horsepower and torque when compared to petroleum diesel. Over 500 major fleets use biodiesel nationwide such as the National Park Service, state departments of transportation and the military.

LEGISLATIVE SUCCESS:

Last year, Congress approved and the President signed into law legislation creating tax incentives for diesel transportation fuels made from soybean oil, other vegetable oils and agricultural byproducts. Specifically, this program, amounts to a penny per percent of biodiesel blended with petroleum diesel for “agri-biodiesel,” such as that made from soybean oil, and a half-penny per percentage for biodiesel made from other sources, like recycled cooking oil. It will lower the cost of biodiesel to consumers in taxable and tax exempt markets.

As you are aware, the biodiesel tax incentive will expire December 31, 2006. While the tax incentives have been successful in boosting the demand, the biodiesel industry is a young industry and it will certainly continue requiring support beyond 2006. For this reason, soybean farmers and biodiesel businesses have made the extension of the tax incentive their top priority for 2005.

With Congress considering comprehensive energy legislation, it is critical we retain this extension as was passed in the Senate bill. Thanks to Senate Finance Committee Chairman Chuck Grassley (R-IA), the bill extends the biodiesel tax incentive through December 31, 2010, offers tax incentives for farmers who wish to build biodiesel plants, and tax incentives for fueling infrastructure for B20 blends at retail stations. The provisions have received strong bipartisan support from leaders such as Senator Blanche Lincoln (D-AR) and Representative Kenny Hulshof (R-MO).

THE FUTURE:

Mr. Chairman, while the tax extension is critical to the long term viability of biodiesel, one thing that will enhance the growth of biodiesel is the RFS. With rising crude oil and fuel prices hurting consumers, and record petroleum imports exacerbating our trade imbalance, we need to be maximizing the use of home-grown biodiesel.

Enacting an RFS that would provide a market of 8 billion gallons by 2012 demonstrates a firm commitment to reducing this nation's foreign oil dependence while providing a significant impact to the American economy.

The production and use of 8 billion gallons of biodiesel, ethanol and other renewable fuels by 2012 will displace over 2 billion barrels of crude oil and reduce the outflow of dollars largely to foreign oil producers by $64.1 billion between 2005 and 2012. As a result of the RFS, America's dependence on imported oil will be reduced from an estimated 68 percent to 62 percent.

The renewable fuels sector will spend an estimated $6 billion to build 4.3 billion gallons of new ethanol and biodiesel capacity between 2005 and 2012, and nearly $70 billion on goods and services required to produce 8 billion gallons of ethanol and biodiesel by 2012. Purchases of corn, grain sorghum, soybeans, corn stover and wheat straw alone will total $43 billion between 2005 and 2012.

SKY IS THE LIMIT:

The reality is that the biodiesel industry is positioning itself to meet greater demand by welcoming new producers to the fuel market. Demand has been stimulated in part by the passage of a federal tax incentive.

Mr. Chairman, currently, 32 biodiesel plants are operating and 23 biodiesel are being constructed or considered. In total, the 55 eligible plants have the potential to add more than 350 million gallons of domestically produced biodiesel to the transportation fuels marketplace at a time when domestic fuels supplies are extremely tight.

Investment in expanding renewable fuels industries in biodiesel and ethanol, offer many benefits to the U.S. production facilities across America's countryside serve as local economic engines, providing high-paying jobs, capital investment opportunities, increased local tax revenue, and value-added markets for family farmers. In addition to the economic development impacts these industries have on our economy, renewable fuels are an important component of this country's strategy to diversify its energy portfolio and reduce our dependence upon foreign sources of oil.

CLOSING:

In closing, Mr. Chairman, the importance of biodiesel as an alternative fuel to the nation's economy has never been greater, and its value promises to grow even larger. Oil

prices are at all-time highs and are once again threatening the American economy. It is time for the U.S. embrace energy policies that will help farmers, improve our energy security, protect the environment, and stimulate our economy.

Thank you!